Cleveland
Public Library

JUN 1 - 1979

1978

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

ANNUAL REPORT

OF

The Belt Railway Company

of **CHICAGO**

FOR THE

YEAR ENDED DECEMBER 31, 1978

Bid Corp. File

THE BELT RAILWAY COMPANY OF CHICAGO

DIRECTORS

J.C. DAVIS, The Atchison, Topeka and Santa Fe Railway Co. ..... Chicago, Ill.
E.R. CRAVEN, Burlington Northern Inc. ..... Chicago, Ill.
R.G. RAYBURN, The Chesapeake and Ohio Railway Co ..... Cleveland, Oh.
M.L. CASSELL, Chicago, Rock Island and Pacific Railroad Co ..... Chicago, Ill.
A.M. BALDWIN, Consolidated Rail Corp ..... Philadelphia, Pa.
A.B. CRAVENS, Consolidated Rail Corp ..... Chicago, Ill.
J.H. BURDAKIN, Grand Trunk Western Railroad Co ..... Detroit, Mich.
I.B. HALL, Illinois Central Gulf Railroad Co ..... Chicago, Ill.
K.C. DUFFORD, Louisville and Nashville Railroad Co. ..... Louisville, Ky.
R.D. SPENCE, Louisville and Nashville Railroad Co. ..... Louisville, Ky.
H.S. VIERLING, Missouri Pacific Railroad Co ..... Chicago, Ill.
R.F. DUNLAP, Norfolk and Western Railway Co ..... Roanoke, Va.
D.M. CAVANAUGH, Soo Line Railroad Co ..... Minneapolis, Minn.

EXECUTIVE COMMITTEE

J.C. DAVIS, Chairman

R.F. DUNLAP - J.H. BURDAKIN - E.R. CRAVEN - H.S. VIERLING

OFFICERS

President and General Manager ..... **R.E. DOWDY**
Vice President and Controller ..... **R.G. RUBINO**
Secretary and Treasurer ..... **G.D. MORIARTY**
General Counsel ..... **R.F. KOPROSKE**
Assistant Secretary and Assistant Treasurer ..... **R.A. ORLANDO**

GENERAL OFFICES

6900 SOUTH CENTRAL AVENUE, CHICAGO, ILLINOIS 60638

ANNUAL MEETING - SECOND TUESDAY IN MAY

Chicago, Illinois
May 8, 1979

TO THE STOCKHOLDERS OF
THE BELT RAILWAY COMPANY OF CHICAGO

The Annual Report of the company for the year 1978 is hereby submitted.

The operating revenues for the year increased 18.9% over the preceding year. Contributing factors to this increase were a 3.3% increase in cars handled, along with Ex Parte increases in intermediate and local switching rates. Also significant were the increase in demurrage rates, along with a reduction of free time, providing a $923,373 increase over the year 1977.

The higher volume of cars handled, along with the increased rates, allowed Separate Operations to return to a profitable position for the year. Accordingly, net revenues of $224,007 were transferred to the shareholder railroads as a reduction of working expenses.

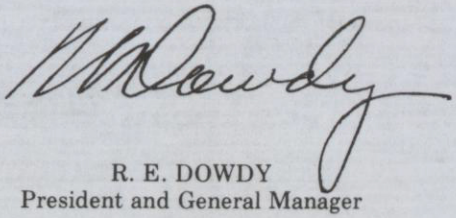
The year 1979 has started off with the worst operating results in the first quarter that can be remembered. This is the result of a record-breaking blizzard in Chicago. The management was optimistic about reducing the first quarter losses during the remaining three quarters of the year, however, this outlook is changing, a result of the United States Supreme Court ruling affecting Ex Parte 289, handling of demurrage collections. If the application of the proposed rules by the Interstate Commerce Commission are placed in effect for the last half of 1979, the Belt Separate Operation will incur a substantial loss of revenues.

Our intent is to continue to work with the Owner Lines to make the BRC a better tool for them to use in their overall operations in the Chicago Gateway. We hope to further expand the usage of Clearing Yard for line of road trains, thus improving the service in the terminal.

During the year, R.E. Bisha, K.F. Kalsow and C.R. Lapeza resigned from the Board of Directors and H.F. Davenport passed away suddenly in March. The wise counsel and dedication of these directors is gratefully acknowledged.

The Board recognizes the cooperation and contributions of the employees during the year.

By order of the Board of Directors.



R. E. DOWDY
President and General Manager

REVIEW OF OPERATIONS

REVENUES:

Total operating revenues for the year were $21,992,030, an increase of $3,495,776 or 18.90%. Intermediate and local switch cars handled in Belt Separate Operation comprise the principal source of revenues. Intermediate switching revenue increased $1,326,438 or 18.26% and local switching revenue increased $1,231,800 or 12.19%. Demurrage charges compared to 1977 were up $929,373. This was due largely to the increase in demurrage rates and reduction of the free-time allowance to shippers as authorized by the Interstate Commerce Commission effective April 1, 1978.

During 1978, cars handled by Belt Railway totaled 892,234 compared to 863,919 in 1977, an increase of 28,315 cars. While business in 1978 was somewhat improved, car movements in the Chicago gateway during the first quarter of 1979 were seriously affected by the record breaking blizzard conditions. Overall results for 1979 will depend largely on greater utilization of Belt's facilities by its shareholder railroad corporations during the remaining quarters of the year.

Cars handled by Belt Railway and its shareholder railroad corporations totaled 1,324,984 in 1978 compared to 1,293,213 in 1977, an increase of 31,771 or 2.46%. Intermediate cars handled increased 14,753 or 6.62%; local loaded cars increased 652 or .59%; and cars interchanged directly between Owner roads using Belt Railway terminal facilities increased 12,184 or 2.90%. Cars handled by Owner Lines in direct movements over Belt trackage increased 3,456 or .81%.

Eighteen industries were located during the year and twelve were vacated. This compared with fifteen located and thirty-three vacated in 1977.

INTERSTATE COMMERCE COMMISSION - UNIFORM SYSTEM OF ACCOUNTS:

A revised Uniform System of Accounts for Railroad Companies (USOA) was mandated effective January 1, 1978. Accordingly, the Financial Statements for 1978 have been stated in the prescribed format and the applicable amounts for 1977 have been reclassified. The most significant effect of the revised accounting format is the restructuring of operating expenses to include taxes, other than income taxes, and rents.

OPERATING EXPENSES:

Total expenses in 1978 were $32,777,741, an increase of $3,659,497 or 12.74% compared to 1977. Payroll costs increased by $1,824,659 due to higher wage rates granted in 1978 under industry wide labor agreements. The operating ratio of Belt Separate Operation was 92.33 compared to 99.23 in 1977.

Roadway track and structures expenses totaled $6,165,166, an increase of $697,093. This was due principally to increased wage costs of $268,976, coupled with increases for the following items of expense: programmed track maintenance, $85,604; snow removal, $231,049; road property damaged, $131,108; repairs to stations and shop buildings, $189,083; and railroad retirement and unemployment taxes, $43,311. These increases were offset somewhat by decreases in other joint maintenance and rental costs. The operating ratio for way and structures was 11.46 compared to 13.40 in 1977.

Equipment expenses totaled $5,429,842, an increase of $1,047,659. Major increases occurred in locomotive repairs, $264,070; freight-train car repairs, $120,085; hire of freight-train cars, $452,657; casualties, $123,156; and railroad retirement and unemployment taxes of $27,933. Overall increase in wages amounted to $214,196. The increase in locomotive repairs was attributable to restoring eight locomotives to active service. Car repairs and freight-train car hire increases are related to the increased volume of cars handled by company forces. The equipment portion of the operating ratio was 19.29 compared to 18.35 in 1977.

Transportation expenses totaled $17,684,602, an increase of $1,531,127. This was due to operational requirements relating to the increase in cars handled by the Company and higher wage costs of $1,198,680. Other increase items were principally: locomotive fuel, $114,529; yard supplies and expenses, $357,442; railroad retirement and unemployment taxes, $130,727; and employee health and welfare benefits, $45,647; which, were offset by decreases in: loss and damage freight claims, settlements for injuries to persons, and other expenses. The operating ratio for transportation expenses was 52.60 compared to 58.50 in 1977.

General and administrative expenses totaled $3,098,131, an increase of $383,618. This was principally due to higher wage costs of $142,806 and a writedown of uncollectible accounts of $132,551. The operating ratio was 8.98, the same as that in the preceding year.

Total operating expenses include amounts chargeable to others as their proportion of costs incurred by the Belt Railway Company in maintaining and operating jointly used tracks and facilities. Net operating expenses charged to Belt Railway Separate Operation are reflected on pages 6 and 16 through 19.

OTHER INCOME AND DEDUCTIONS:

Interest income and income from sinking and other funds shows a small increase over the preceding year. This was mainly due to higher interest rates earned on investments but offset by further reduction of funds available for short-term investments.

The Company railway operations in 1978 produced net revenues of $224,007 as compared to a loss of $964,952 in 1977. Under the operating agreement with its shareholder railroad corporations, these results are incorporated in the Company's statement of account with the shareholder railroad corporations.

Miscellaneous income and charges for the year reflect a combined decrease of $665,870. This is primarily due to non-recurring gains in 1977 from sales of property and discount on bonds reacquired as against those realized in the current year. Interest on unfunded debt increased $48,753 due to the short-term loan made during the latter part of 1977.

Provisions for other items were made during the year for the following: writedown of investments, $302,104; and prior years' income reclassified and transferred to affiliated companies, $765,812.

RAIL TO WATER ACTIVITY:

Unit train coal rail to water transfer operations started on April 12 and ended on December 8th. Coal tonnage handled through the facility totaled 3,148,656 tons in 1978 compared to 3,034,976 tons in 1977, an increase of 113,680 tons. Other commodities handled through this dock facility — coke, clay, feed and iron ore totaled 902,457 tons compared to 400,451 tons in 1977, an increase of 502,006 tons. Total tonnage for the year increased 615,686 tons compared to 1977.

PROPERTY IMPROVEMENTS:

Rail replacements in 1978 consisted of 2,293 tons of new and 806 tons of secondhand rail. There were 18,291 new cross ties and 153,731 feet B.M. of new switch ties installed. The in-track welding program started in 1974 was continued in 1978 with an additional four miles of main track and four miles of yard track being welded by this process. Other changes in road and equipment are reflected on pages 20 and 21 of this report.

RESULTS OF OPERATIONS

Year ended December 31	1978	1977	Increase or (Decrease)
RAILWAY OPERATING REVENUES:			
Intermediate switching	$ 8,590,622	$ 7,264,184	$ 1,326,438
Local switching	11,334,568	10,102,768	1,231,800
Demurrage	1,966,831	1,037,458	929,373
Miscellaneous	100,009	91,844	8,165
Total railway operating revenues	21,992,030	18,496,254	3,495,776
RAILWAY OPERATING EXPENSES:			
Way and structures	2,521,117	2,478,859	42,258
Equipment (Note 5)	4,242,052	3,393,937	848,115
Transportation	11,566,610	10,820,217	746,393
General and administrative	1,975,818	1,661,195	314,623
Total railway operating expenses (Note 6)	20,305,597	18,354,208	1,951,389
Net revenue from railway operations	1,686,433	142,046	1,544,387
OTHER INCOME:			
Revenue from property used in other than carrier operations	52,040	63,913	(11,873)
Miscellaneous rent income	353,870	340,364	13,506
Interest income	28,805	16,934	11,871
Income from sinking and other funds	38,749	41,252	(2,503)
Contributions from other companies (Note 1)	-	964,952	(964,952)
Miscellaneous income (property sales and company bonds reacquired) (Note 4)	252,936	827,775	(574,839)
Total other income	726,400	2,255,190	(1,528,790)
Total income	2,412,833	2,397,236	15,597
MISCELLANEOUS DEDUCTIONS FROM INCOME:			
Taxes on property used in non-carrier operations	696	725	(29)
Miscellaneous rent expenses	259	146	113
Miscellaneous taxes	34,985	32,292	2,693
Income transferred to other companies (Note 1)	224,007	-	224,007
Miscellaneous income charges	103,999	12,968	91,031
Uncollectible accounts	11,967	-	11,967
Total miscellaneous deductions	375,913	46,131	329,782
Income available for fixed charges	$ 2,036,920	$ 2,351,105	$ (314,185)

See notes to financial statements.

RESULTS OF OPERATIONS - concluded

Year ended December 31	1978	1977	Increase or (Decrease)
FIXED CHARGES:			
Interest on funded debt	$ 1,723,379	$ 1,742,782	$ (19,403)
Interest on unfunded debt	48,753	-	48,753
Amortization of discount on funded debt	4,971	4,971	-
Total fixed charges	1,777,103	1,747,753	29,350
Income after fixed charges	259,817	603,352	(343,535)
PROVISIONS FOR OTHER ITEMS:			
Unusual or infrequent items - debit (credit):			
Writedown of investment (Note 2)	302,104	-	302,104
Prior years' income transferred to affiliated companies (Note 3)	765,812	-	765,812
Income taxes:			
Federal income taxes (Note 3)	30,071	-	30,071
State income taxes	-	21,512	(21,512)
Total provisions for other items	1,097,987	21,512	1,076,475
Net income (loss) (Note 1)	$ (838,170)	$ 581,840	$ (1,420,010)
Net income (loss) per share	$ (26.86)	$ 18.65	$ (45.51)

RETAINED EARNINGS

	1978	1977
RETAINED EARNINGS - UNAPPROPRIATED:		
Balance at beginning of year	$ 3,248,424	$ 2,666,584
Net income (loss) (Note 1)	(838,170)	581,840
Balance at end of year	$ 2,410,254	$ 3,248,424

See notes to financial statements.

BALANCE SHEETS

Assets	December 31, 1978	December 31, 1977	Increase or (Decrease)
CURRENT ASSETS:			
Cash	$ (368,497)	$ (357,904)	$ (10,593)
Temporary cash investments	1,249,481	1,000,000	249,481
Special deposits	2,518	2,564	(46)
Accounts receivable:			
-Interline and other balances	1,961,166	1,439,566	521,600
-Customers	243,502	208,468	35,034
-Other	280,276	203,095	77,181
-Receivables from Affiliated Companies	2,481,702	2,558,437	(76,735)
-Accrued accounts receivable (Note 3)	1,262,243	632,191	630,052
-Less: Allowance for uncollectible accounts	(131,532)	-	(131,532)
Working funds	2,041	2,041	-
Prepayments	281,659	243,710	37,949
Material and supplies (Note 1)	2,436,909	1,758,992	677,917
Other current assets	50,609	51,966	(1,357)
Total current assets	9,752,077	7,743,126	2,008,951
SPECIAL FUNDS AND INVESTMENTS:			
Capital and other funds	730,333	614,758	115,575
Other investments (Note 2)	55,905	-	55,905
Total special funds and investments	786,238	614,758	171,480
TANGIBLE PROPERTIES (Notes 1 and 7):			
Road	31,980,930	31,703,598	277,332
Equipment	6,372,069	6,328,077	43,992
Improvements on leased property	13,897	13,897	-
Total transportation property	38,366,896	38,045,572	321,324
Accrued depreciation - Road and equipment	(9,780,148)	(9,430,226)	(349,922)
Total transportation property - Net	28,586,748	28,615,346	(28,598)
Miscellaneous physical property	6,069,036	6,111,995	(42,959)
Total properties - Net	34,655,784	34,727,341	(71,557)
OTHER ASSETS AND DEFERRED DEBITS:			
Other assets (Note 2)	655,411	1,024,119	(368,708)
Other deferred debits (Note 3)	445,315	410,000	35,315
Total other assets and deferred debits	1,100,726	1,434,119	(333,393)
TOTAL ASSETS	$ 46,294,825	$ 44,519,344	$ 1,775,481

See notes to financial statements.

BALANCE SHEETS

Liabilities and Equity	December 31, 1978	December 31, 1977	Increase or (Decrease)
CURRENT LIABILITIES:			
Loans and notes payable (Note 7)	$ 240,299	$ 685,951	$ (445,652)
Interline and other balances payable	1,023,750	734,296	289,454
Audited accounts and wages payable	1,699,199	1,113,110	586,089
Other accounts payable	289,874	237,767	52,107
Interest matured unpaid	2,518	2,564	(46)
Unmatured interest accrued	392,656	389,822	2,834
Accrued accounts payable (Note 3)	774,755	92,410	682,345
Federal income taxes (Note 3)	-	-	-
Other taxes accrued	762,836	741,389	21,447
Other current liabilities	52,314	37,671	14,643
Total current liabilities (exclusive of long-term debt due within one year)	5,238,201	4,034,980	1,203,221
LONG-TERM DEBT DUE WITHIN ONE YEAR (Note 7):			
First mortgage bonds - Series A	127,000	-	127,000
Equipment obligations	-	8,125	(8,125)
Total debt due within one year	127,000	8,125	118,875
LONG-TERM DEBT (Note 7):			
First Mortgage 4-5/8% Sinking Fund Bonds, Series A, due August 15, 1987	23,085,000	23,428,000	(343,000)
Less unamortized discount on long-term debt	(43,486)	(48,457)	4,971
Amounts payable to affiliated companies	11,796,904	10,285,864	1,511,040
Total long-term debt	34,838,418	33,665,407	1,173,011
OTHER NON-CURRENT LIABILITIES:			
Other deferred credits	330,952	212,408	118,544
EQUITY:			
Capital stock, common, $100 par value, authorized 50,000 shares, issued and outstanding 31,200 shares (Note 8)	3,120,000	3,120,000	-
Paid-in surplus	230,000	230,000	-
Retained earnings	2,410,254	3,248,424	(838,170)
Total stockholders' equity	5,760,254	6,598,424	(838,170)
TOTAL LIABILITIES AND EQUITY	$ 46,294,825	$ 44,519,344	$ 1,775,481

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1978	1977
Source of Funds:		
Net income (loss)	$ (838,170)	$ 581,840
Depreciation	413,912	409,673
Transportation property retired (non-depreciable)	165,054	31,817
Writedown of investment (Note 2)	302,104	-
Transfers of prior years' income (Note 3)	766,040	-
Funds provided from operations	808,940	1,023,330
Miscellaneous physical property sold	62,452	-
Decrease in capital and other special funds	-	624,315
Advances from affiliated companies	745,000	745,000
Increase in other deferred credits	118,544	132,075
TOTAL FUNDS PROVIDED	$ 1,734,936	$ 2,524,720
Application of Funds:		
Additions to transportation properties	$ 550,368	$ 485,841
Increase in capital and other special funds	115,575	-
First Mortgage Bonds acquired	216,000	1,147,000
Miscellaneous physical property added	19,493	-
Increase in other assets and deferred charges	19,645	440,429
Reduction in long-term debt	127,000	8,125
Increase (decrease) in working capital	686,855	443,325
TOTAL FUNDS APPLIED	$ 1,734,936	$ 2,524,720
Increase (Decrease) in Working Capital (Including Long-Term Debt Due Within One Year):		
Current Assets:		
Cash and temporary cash investments	$ 238,888	$ (254,672)
Receivables and accruals	1,055,554	(214,149)
Prepayments	37,949	(32,542)
Material and supplies	676,560	330,661
TOTAL	2,008,951	(170,702)
Current Liabilities:		
Note payable	(445,652)	685,951
Accounts payable and accruals	1,612,783	(215,030)
Federal income taxes	-	-
Other taxes accrued	21,447	(338,255)
Long-term debt due within one year	118,875	(738,375)
Other	14,643	(8,318)
TOTAL	1,322,096	(614,027)
Increase (Decrease) in Working Capital	$ 686,855	$ 443,325

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Statement Presentation

Accounts of the Company are maintained in conformity with the revised Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission effective January 1,1978, which substantially conform with generally accepted accounting principles. For comparison purposes, accounts for the year 1977 have been reclassified to conform to the 1978 presentation.

The principal business of the Company is providing railroad terminal and switching facilities and services to domestic railroad corporations and to the shippers of such railroad corporations. A substantial part of the services rendered by the Company is in behalf of its shareholder railroad corporations which, under an operating agreement with the Company ("Operating Agreement"), have operating rights for the movement of their trains by the Company. The Company's terminal operations are generally classified either as owner lines operations or Company railway operations. The total expenses allocated to owner lines operations are billed to the shareholder railroad corporations on an actual cost basis. A summary of such operations for 1978 and 1977 follows:

	1978	1977
Railway operating expenses	$ 11,034,083	$ 9,411,885
Interest and other fixed charges	1,012,332	995,301
Other	(213,269)	(241,052)
Total billed to shareholder railroad corporations	$ 11,833,146	$ 10,166,134

The terminal railroad facilities and related services for Company railway operations resulted in net revenues of $224,007 in 1978 and net losses of $964,952 in 1977; as prescribed by Section 281 of the Internal Revenue Code and the Operating Agreement, these results are incorporated in the Company's statement of account with its shareholder railroad corporations. Nonrelated terminal income and expenses of the Company are not included in the statement of account with its shareholder railroad corporations.

Properties, Depreciation, Maintenance and Repairs

Properties are stated substantially at cost. Replacement accounting is used principally for track accounts; under this method, betterments and additions are capitalized and are not depreciated. Replacements in kind and retirements are charged to expense.

Additions, renewals and betterments of all other classes of property are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment or depreciable road property is sold or retired, the cost less salvage value is charged to accrued depreciation.

Depreciation is generally provided on the straight-line method. The average annual depreciation rates are approximately 1.56% for depreciable road properties and 3.39% for rolling stock.

Investment Tax Credit

The Company uses the "flow-through" method of accounting for investment tax credits.

Material and Supplies

Material and supplies, consisting primarily of fuel oil and replacement or repair parts for equipment and road property, are stated at average cost.

2. *RECEIVABLES*

Included in other assets at December 31, 1978 and 1977, are receivables of approximately $421,000 due from a former shareholder railroad corporation. Erie Lackawanna Railway Company, one shareholder railroad corporation, the Chicago, Rock Island and Pacific Railroad Company and, a non-shareholder railroad corporation, the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Such receivables arose from transactions occurring prior to the respective dates that these companies entered into reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The Company has filed claims for payment with the respective reorganization courts. The ultimate collectibility of these receivables is not presently determinable.

Also included in other assets at December 31, 1977 were receivables of approximately $358,000 due from Penn Central Transportation Company arising from transactions prior to the date that company entered into reorganization proceedings under Section 77. During 1978, this claim was settled through a Reorganization Plan under which the Company received 3,727 shares of Penn Central Corporation common stock with a quoted market value approximating $55,905 at date of receipt and December 31, 1978. At December 31, 1978, such amount is carried in other investments.

Also included in other assets as of December 31, 1978 and 1977, are receivables of approximately $230,000 due from Erie Lackawanna Railway Company arising from transactions subsequent to the date it began Section 77 proceedings and prior to April 1, 1976, the date it ceased its railway operations under the Railroad Revitalization Regulatory Reform Act.

3. *FEDERAL INCOME TAXES*

There is no Federal income tax provision in 1978 and 1977 due primarily to investment tax credits. However, "minimum" Federal tax of $22,969 was paid in 1978 relating to the tax treatment of sales of property for the year 1977.

For Federal income tax purposes, the Company has available approximately $834,000 investment tax credit carryforward at December 31, 1978. The investment tax credits expire in varying amounts from 1979 to 1985, subject to adjustment when tax litigation discussed below is determined.

The Company is currently involved in litigation with the United States of America and the Internal Revenue Service covering taxable years 1967 and 1969. It has been stipulated by the parties in the case that a net overpayment of income taxes of $411,017 was made for 1967, and a deficiency is owed for 1969 of $7,102. It is expected that the stipulation, which is subject to review and approval by the Joint Committee, will be determined shortly; accordingly, $403,915 is included in receivables at December 31, 1978. Under Section 281 of the Internal Revenue Code and the Operating Agreement, the net effect to the Company of $765,812 resulting from transferring of prior years' income to affiliated companies has been charged to results of operations in 1978.

For taxable years 1972 through 1974, the Company was assessed and paid during 1976 approximately $222,000, net of investment tax credits of $206,000. Such amount is included in other deferred charges pending the ultimate outcome of litigation discussed above.

4. *JOINT VENTURE*

During 1977, the Company sold its interest in a joint venture partnership and recognized a gain of $491,720 which is included in miscellaneous income.

5. *COMMITMENTS*

The Company leases locomotives, trucks, and data processing equipment under operating leases which expire through 1982. Total rental expense charged to operations for such leases was $484,353 and $462,759 for the years 1978 and 1977, respectively. Minimum annual rental commitments at December 31, 1978 under present non-cancellable operating leases having an initial or remaining term of more than one year are as follows: Years ending December 31, 1979, $331,399; 1980, $310,752; 1981, $249,695; and 1982, $94,320; aggregating $986,166.

6. *RETIREMENT PLANS*

The Company adopted a funded pension plan effective January 1, 1976 which provides benefits to eligible employees who retire on or after January 1, 1976 in addition to benefits received under the Railroad Retirement Act. Pension expense for this plan was $144,360 for both 1978 and 1977, which includes amortization of prior service cost over thirty years. The actuarially computed value of vested benefits for this plan exceeded the total of the pension fund and balance sheet accruals by approximately $1,170,000 as of January 1, 1979.

The Company also charged to pension expense $84,037 in 1978 and $89,874 in 1977 for pension benefits paid to retired employees under the Company's unfunded supplemental retirement plan which was replaced by the above mentioned funded plan.

7. *LONG-TERM DEBT*

The First Mortgage Bonds and equipment obligations are collateralized by substantially all the properties of the Company. Under the provisions of the First Mortgage Bond Indenture, the Company is required to meet sinking fund requirements of $745,000 annually. The Company reacquired bonds to meet the sinking fund requirements for 1978 and 1977. During 1978 and 1977, the Company reacquired additional bonds of $618,000 to be applied to its 1979 sinking fund requirement.

Long-term debt due after one year matures as follows: 1980 through 1986, $745,000 annually; 1987, $17,870,000.

As prescribed in the operating agreement between the Company and the shareholder railroad corporations, such corporations, on a proportionate basis, have advanced funds to the Company for sinking fund installments, equipment obligations, and the cost of capital improvements. Such advances, aggregating $11,796,904 and $10,285,864 at December 31, 1978 and 1977, respectively, will be repaid when funds are available in the proportion and in the same order of time as advances were made.

8. *CORPORATE STRUCTURE*

The Company was organized under the General Laws Authorizing the Formation of Railroad Companies in the State of Illinois passed in the year 1882. Date of incorporation was November 22, 1882. At December 31, 1978, the Company's capital stock is owned by eleven railroad corporations:

Name of Security Holders	Number of Shares
The Atchison, Topeka and Santa Fe Railway Co.	2,400
Burlington Northern Inc.	2,400
The Chesapeake and Ohio Railway Co.	2,400
Chicago, Rock Island and Pacific Railroad Co.	2,400
Consolidated Rail Corp.	4,800
Grand Trunk Western Railroad Co	2,400
Illinois Central Gulf Railroad Co.	2,400
Louisville and Nashville Railroad Co.	4,800
Missouri Pacific Railroad Co.	2,400
Norfolk and Western Railway Co.	2,400
Soo Line Railroad Co.	2,400
Total shares issued and outstanding	31,200

Deloitte
Haskins + Sells

200 East Randolph Drive
Chicago, Illinois 60601
(312) 861-1161
TWX 910-221-2695

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Directors and Shareholders of
The Belt Railway Company of Chicago

We have examined the balance sheets of The Belt Railway Company of Chicago as of December 31, 1978 and 1977, and the related statements of results of operations, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 28, 1978, our opinion on the 1977 financial statements was qualified as being subject to the effects, if any, on the financial statements of the ultimate collection of a receivable of approximately $358,000 due from Penn Central Transportation Company, who had filed for reorganization proceedings under the Federal Bankruptcy Act. As discussed in Note 2 to the financial statements, during 1978 the uncertainty concerning the collectibility of this receivable was resolved. Accordingly, our present opinion on the 1977 financial statements, as expressed herein, is different from that expressed in our previous report.

In addition, as discussed in Note 2, the Company has receivables of approximately $421,000 at December 31, 1978 and 1977 due from three railroad corporations who have filed for reorganization proceedings under the Federal Bankruptcy Act. The ultimate collectibility of these receivables is not presently determinable.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate collection of the receivables discussed in the preceding paragraph, the financial statements for 1978 and 1977, when read in conjunction with 1978, (pages 6 through 14) present fairly the financial position of the Company at December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Chicago, Illinois
March 30, 1979

OPERATING EXPENSES

Year ended December 31	1978	1977	Increase or (Decrease)
ROADWAY AND STRUCTURES:			
Administration	$ 306,146	$ 284,881	$ 21,265
Repair and maintenance - roadway:			
Roadway	188,201	149,026	39,175
Bridges and culverts	67,990	64,962	3,028
Ties	293,398	218,247	75,151
Rails	404,013	531,427	(127,414)
Other track material	465,747	439,143	26,604
Ballast	51,355	87,944	(36,589)
Tracklaying and surfacing	1,180,551	1,032,699	147,852
Signals and interlockers	707,945	716,105	(8,160)
Highway grade crossings	27,109	71,440	(44,331)
Roadway machines	67,464	54,500	12,964
Small tools and supplies	114,013	73,541	40,472
Snow removal	431,914	200,865	231,049
Road property damaged	270,579	139,471	131,108
Repair and maintenance-structures:			
Communication systems	135,576	122,156	13,420
Power systems	37,805	12,658	25,147
Station and office buildings	198,996	83,876	115,120
Shop buildings	115,510	41,547	73,963
Locomotive servicing facilities	1,197	4,058	(2,861)
Miscellaneous buildings and structures	17,378	37,282	(19,904)
Small tools and supplies	10,459	6,764	3,695
Casualties	10,011	8,834	1,177
Insurance	114,229	104,000	10,229
Other expenses:			
Dismantling retired property	13,696	21,325	(7,629)
Retirements - Road	13,903	(29,306)	43,209
R.R. Retirement & Unemployment taxes	486,537	443,226	43,311
Health and welfare benefits	153,981	132,978	21,003
Pensions	15,633	13,829	1,804
Lease rentals - Dr.	2,285	2,259	26
Lease rentals - Cr.	(88,359)	(96,218)	7,859
Other expenses	9,149	4,580	4,569
Depreciation - Road	192,240	189,167	3,073
Other joint maintenance expenses	110,142	212,660	(102,518)
Other joint rental expenses	38,373	88,147	(49,774)
Gross total	6,165,166	5,468,073	697,093
Joint facility maintenance - Cr	(2,849,329)	(2,305,884)	(543,445)
Joint facility rents - Cr	(794,720)	(683,330)	(111,390)
Net - Belt Railway operations	$ 2,521,117	$ 2,478,859	$ 42,258
Ratio to operating revenues	11.46	13.40	(1.94)

OPERATING EXPENSES - continued

Year ended December 31	1978	1977	Increase or (Decrease)
EQUIPMENT:			
Administration	$ 124,799	$ 102,769	$ 22,030
Repair and maintenance:			
Shop and power-plant machinery	6,219	4,508	1,711
Locomotives	1,840,713	1,576,643	264,070
Freight-train cars	1,002,734	882,649	120,085
Other equipment	122,395	86,805	35,590
Equipment rents - Dr.:			
Locomotives	188,640	188,640	-
Freight car hire	4,833,551	3,921,932	911,619
Equipment rents - Cr.:			
Locomotives	(9,736)	(13,148)	3,412
Freight car reclaims	(3,665,403)	(3,206,441)	(458,962)
Other equipment	(4,134)	(509)	(3,625)
Casualties	130,041	6,885	123,156
Insurance	126,743	132,815	(6,072)
Other expenses:			
R.R. Retirement & Unemployment taxes	313,903	285,970	27,933
Health and Welfare benefits	107,084	92,328	14,756
Pensions	9,893	10,213	(320)
Lease rentals - Dr.	9,360	-	9,360
Lease rentals - Cr.	(32)	-	(32)
Other expenses	21,326	25,232	(3,906)
Depreciation - shop machinery	9,420	9,273	147
Depreciation - railway equipment	212,252	211,259	993
Other joint maintenance expenses	40,433	52,703	(12,270)
Other joint rental expenses	9,641	11,657	(2,016)
Gross total	5,429,842	4,382,183	1,047,659
Joint facility maintenance - Cr	(1,185,694)	(986,700)	(198,994)
Joint facility rents - Cr	(2,096)	(1,546)	(550)
Net - Belt Railway operations	$ 4,242,052	$ 3,393,937	$ 848,115
Ratio to operating revenues	19.29	18.35	.94

OPERATING EXPENSES - continued

Year ended December 31	1978	1977	Increase or (Decrease)
TRANSPORTATION:			
Administration:			
Superintendence	$ 440,988	$ 429,088	$ 11,900
Yardmasters	415,949	379,978	35,971
Dispatching trains	220,750	189,327	31,423
Other	194,008	181,946	12,062
Yard crews, enginemen	2,048,745	1,959,868	88,877
Yard crews, trainmen	4,024,519	3,390,611	633,908
Yard switching fuel	1,029,999	915,470	114,529
Other yard expenses:			
Yard clerical work	1,202,406	1,083,907	118,499
Yard switch and signal tenders	915,786	830,471	85,315
Servicing yard locomotives	650,469	590,012	60,457
Yard supplies and expenses	2,006,767	1,649,325	357,442
Administrative support operations:			
Weighing, inspection and demurrage bureaus	12,510	12,344	166
Station supplies and expenses	35,245	34,080	1,165
Station clerical work	629,380	522,477	106,903
Communication systems operation	563	2,049	(1,486)
Processing loss and damage claims	26,155	23,399	2,756
Loss and damage claims - Freight	102,409	161,843	(59,434)
Damage to property	9,972	13,819	(3,847)
Injuries to persons	54,974	185,583	(130,609)
Insurance	210,207	213,274	(3,067)
Other expenses:			
Property protection	240,972	217,820	23,152
Crossing protection	9,779	9,837	(58)
Clearing wrecks	111,737	119,900	(8,163)
Adjusting and transferring loads	42,072	45,792	(3,720)
R.R. Retirement & Unemployment taxes	1,908,492	1,777,765	130,727
Health and welfare benefits	746,799	701,152	45,647
Pensions	39,052	40,922	(1,870)
Stationery and printing	5,926	11,044	(5,118)
Other expenses	42,904	140,832	(97,928)
Other joint yard expenses	305,068	319,540	(14,472)
Gross total	17,684,602	16,153,475	1,531,127
Operating joint yards and terminals - Cr	(6,117,992)	(5,333,258)	(784,734)
Net - Belt Railway operations	$ 11,566,610	$ 10,820,217	$ 746,393
Ratio to operating revenues	52.60	58.50	(5.90)

OPERATING EXPENSES - concluded

Year ended December 31	1978	1977	Increase or (Decrease)
GENERAL AND ADMINISTRATIVE:			
Administration	$ 480,420	$ 397,968	$ 82,452
Administrative operations:			
Accounting	753,327	726,939	26,388
Management information services	426,170	378,317	47,853
Legal	122,962	158,904	(35,942)
Personnel and Labor Relations	51,726	37,747	13,979
Other	123,091	114,566	8,525
Casualties	20	-	20
Insurance	5,393	3,425	1,968
Other expenses:			
R.R. Retirement & Unemployment taxes	226,964	208,755	18,209
Health and welfare benefits	111,246	91,432	19,814
Pensions	51,871	49,233	2,638
Stationery and printing	9,735	15,395	(5,660)
Other expenses	183,562	185,124	(1,562)
Uncollectible accounts	132,551	-	132,551
Property taxes, general	373,250	328,658	44,592
Other taxes	15,318	16,839	(1,521)
Other joint facility, General expenses	30,525	1,211	29,314
Gross total	3,098,131	2,714,513	383,618
General joint facilites - Cr	(1,122,313)	(1,053,318)	(68,995)
Net - Belt Railway operations	$ 1,975,818	$ 1,661,195	$ 314,623
Ratio to operating revenues	8.98	8.98	-
Total operating expenses	$ 32,377,741	$ 28,718,244	$ 3,659,497
Total joint facility - credits	(12,072,144)	(10,364,036)	(1,708,108)
Total operating expenses - Belt Railway operations	$ 20,305,597	$ 18,354,208	$ 1,951,389
Ratio to operating revenues	92.33	99.23	(6.90)
Operating revenue per car (average)	$ 42.92	$ 39.97	$ 2.95
Operating expense per car (average)	$ 41.19	$ 41.31	$ (.12)

ROAD AND EQUIPMENT PROPERTY

	Balance December 31, 1977	1978 Additions & Betterments	1978 Retirements	Balance December 31, 1978
ROAD:				
Engineering	$ 650,454	$ -	$ 1,860	$ 648,594
Land for transportation purposes	9,678,614	-	114,677	9,563,937
Grading	4,397,683	234	-	4,397,917
Bridges, trestles and culverts	1,924,608	-	-	1,924,608
Ties	1,032,824	1,995	1,251	1,033,568
Rails	3,183,814	116,140	1,490	3,298,464
Other track material	2,618,120	136,489	43,104	2,711,505
Ballast	600,298	-	484	599,814
Track laying and surfacing	1,098,456	3,794	1,033	1,101,217
Fences, snowsheds and signs	13,083	-	-	13,083
Station and office buildings	1,156,064	1,803	-	1,157,867
Roadway buildings	87,891	-	-	87,891
Water stations	66,317	-	-	66,317
Fuel stations	65,376	-	-	65,376
Shops and engine houses	739,668	-	-	739,668
Wharves and docks	40,369	-	-	40,369
Communication systems	345,736	896	-	346,632
Signals and interlockers	1,713,662	20,836	-	1,734,498
Power plants	55,016	-	-	55,016
Power-transmission systems	171,299	-	-	171,299
Miscellaneous structures	70,244	-	-	70,244
Roadway machines	506,409	87,610	1,038	592,981
Public improvements - Construction	706,091	55,638	-	761,729
Shop machinery	407,815	16,834	-	424,649
Power plant machinery	373,687	-	-	373,687
TOTAL ROAD	31,703,598	442,269	164,937	31,980,930
EQUIPMENT:				
Diesel locomotives	5,686,319	20,495	7,826	5,698,988
Freight-train cars	234,584	59	-	234,643
Work equipment	121,158	-	-	121,158
Miscellaneous equipment	286,016	87,545	56,281	317,280
TOTAL EQUIPMENT	6,328,077	108,099	64,107	6,372,069
TOTAL ROAD AND EQUIPMENT	$ 38,031,675	$ 550,368	$ 229,044	$ 38,352,999

EQUIPMENT OWNED

	On Hand Dec. 31, 1977	Changes During Year		On Hand Dec. 31, 1978
		Added	Retired	
Locomotives:				
Diesel - Switching (A) units	35			35
Diesel - Switching (B) units	7			7
Total	42			42
Freight-train Cars:				
Caboose	28			28
Box	-			-
Total	28			28
Work Equipment:				
Wrecking derrick	1			1
Jet snow blower	1			1
Burro crane	1			1
Other maintenance cars	11			11
Total	14			14
Miscellaneous Equipment:				
Automobiles (passenger)	11	1	2	10
Trucks (maintenance)	29	5	3	31
Trailers (utility)	3			3
Total	43	6	5	44

FUNDED DEBT

First Mortgage bonds issued by Bankers Trust Company, New York, Trustee:		
Total amount authorized	$ 75,000,000	
Sinking Fund Bonds 4-⅝%, Series "A" issued August 15, 1962, due August 15, 1987:		
For purchase of properties formerly leased from the Chicago and Western Indiana Railroad Company		$ 36,662,852
Expended for financing expenses and for additions and betterments subsequent to August 15, 1962		587,148
TOTAL ISSUED		$ 37,250,000
Less: Redeemed and cancelled	$ 13,420,000	
Redeemed and held by or for Company	618,000	14,038,000
TOTAL OUTSTANDING AT DECEMBER 31, 1978		**$ 23,212,000**

CARS HANDLED

Year ended December 31	1978		1977		Increase or (Decrease) Percent
	Cars	Percent	Cars	Percent	
BELT SEPARATE OPERATIONS:					
Intermediate (Belt Handled):					
Loaded Cars	142,984	27.91	123,123	26.61	16.13
Empty Cars	94,551	18.46	99,659	21.53	(5.13)
Local (Belt Handled):					
Loaded Cars	110,958	21.66	110,306	23.84	.59
Empty Cars	110,825	21.63	110,099	23.79	.66
Bridge (By Owner Lines):					
Loads and Empty Cars	53,022	10.35	19,566	4.23	170.99
TOTAL: (Belt Separate Operations)	512,340	100.00	462,753	100.00	10.72
OWNER TO OWNER OPERATIONS:					
Cars interchanged directly between Owner Roads at Clearing and other yards - handled by Belt Railway Company	432,916	53.27	420,732	50.66	2.90
Cars handled by Owner Lines in direct movements over Belt Railway Company of Chicago	379,728	46.73	409,728	49.34	(7.32)
TOTAL (Owner to Owner)	812,644	100.00	830,460	100.00	(2.15)
TOTAL Cars Handled	1,324,984	-	1,293,213	-	2.46

CARS HANDLED FOR LAST FIVE YEARS:

	1978	1977	1976	1975	1974
Belt Separate Operations:					
Intermediate - Loaded	142,984	123,123	130,223	132,028	174,564
Intermediate - Empty	94,551	99,659	104,451	109,484	148,399
Local - Loaded	110,958	110,306	121,735	128,575	140,942
Local - Empty	110,825	110,099	120,223	124,077	133,926
Bridge - Loads & Emptys	53,022	19,566	27,413	30,769	103,838
Owner to Owner Operations:					
Handled by Belt Railway	432,916	420,732	366,169	337,622	367,706
Handled by Owner Lines	379,728	409,728	515,605	653,403	793,693
TOTAL Cars Handled	1,324,984	1,293,213	1,385,819	1,515,958	1,863,068

MILEAGE OF TRACK OPERATED

Year ended December 31	1978				
	First Main	Second Main	Other Mains	Yard Tracks and Sidings	Total
Owned by The Belt Railway Co:					
Cragin to South Chicago including Clearing Yard	27.16	25.60	-	306.25	359.01
Leased from other companies:					
Chicago, Peoria & Western (Argo)	-	-	-	.52	.52
Trackage rights received from other companies:					
C. & W. I. R.R. Co.					
80th St. to Pullman Jct.	3.56	3.47	-	.03	7.06
Pullman Jct. to South Deering	2.68	2.68	2.54	.38	8.28
South Deering to Burnham	4.76	4.76	.67	3.83	14.02
C.R.I. & P .R.R. - South Chicago	-	-	-	1.57	1.57
Con Rail - South Chicago	-	-	-	.09	.09
I.H.B. R.R. - 55th to Elsdon	1.41	1.40	-	-	* 2.81
B.& O. C.T. R.R. - Clearing to Proviso	9.05	8.09	-	13.70	30.84
B.& O. C.T. R.R. Southwest Division (Cicero District)	-	-	-	6.08	6.08
N & W Railway - Ford Yd. & Lead	-	-	-	1.26	1.26
Calumet Western R.R. - 112th to 116th	.51	-	-	-	.51
Con Rail & I.H.B. R.R. (Joint) 116th to 117th	.11	-	-	-	.11
Chicago, West Pullman & Southern - South Chicago	-	-	-	.09	.09
Total	22.08	20.40	3.21	27.03	72.72
Total Miles Operated	49.24	46.00	3.21	333.80	432.25

YARD TRACKS OWNED BY THE BELT RAILWAY CO. BUT NOT OPERATED

(Not included in above mileage)

Leased To	Location	Miles of Road
C.W.P. & S. R.R.	Warner Branch	1.46
C. & O. Ry. Co.	Rockwell St. Yard	8.90
	Total	10.36

TRACKAGE RIGHTS GRANTED OTHER COMPANIES

Company	Location	Miles of Road
I.H.B. R.R.	Elsdon Branch	*1.51
E.J. & E. Ry	South Chicago to Mill Gate & South Deering	3.40
	Total	4.91

*Trackage Rights Not Exercised.